

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Bay Bluffs (Emmet County Medical Care Facility)	County Emmet
Audit Date December 31, 2004	Opinion Date May 6, 2005	Date Accountant Report Submitted To State: April 4, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 333 Bridge Street NW, Suite 600		City Grand Rapids	State MI
ZIP 49525			
Accountant Signature 			

Bay Bluffs - Emmet County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2004**

Bay Bluffs - Emmet County Medical Care Facility

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Independent Auditor's Report

To the Emmet County Department of Health Services Board
Bay Bluffs - Emmet County Medical Care Facility

We have audited the accompanying balance sheet of Bay Bluffs - Emmet County Medical Care Facility as of December 31, 2004 and 2003 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Bluffs - Emmet County Medical Care Facility at December 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

As described in Note 1 to the financial statements, the Facility adopted the provisions of Governmental Accounting Standards Board No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of January 1, 2004.

Plante & Moran, PLLC

May 6, 2005



A worldwide association of independent accounting firms

Bay Bluffs - Emmet County Medical Care Facility

Balance Sheet

	December 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash (Note 2)	\$ -	\$ 115,198
Resident accounts receivable (Note 3)	684,081	631,541
Other receivables:		
Contributions	168,642	-
Other	4,456	89,791
Assets limited as to use	29,445	32,500
Other current assets:		
Prepaid expenses	44,312	-
Other	10,000	10,000
Total current assets	940,936	879,030
Property and Equipment (Note 4)	7,842,454	507,921
Total assets	\$ 8,783,390	\$ 1,386,951
Liabilities and Net Assets		
Current Liabilities		
Due to County	\$ 401,432	\$ -
Accounts payable	104,987	100,998
Deposits from residents	9,852	10,397
Estimated third-party payor settlements	100,000	100,000
Accrued liabilities and other:		
Accrued compensation and related liabilities	151,610	114,970
Accrued compensated absences	128,630	117,471
Deferred revenue	164,725	176,688
Other accrued liabilities	31,331	27,503
Total current liabilities	1,092,567	648,027
Net Assets		
Invested in capital assets - Net of related debt	7,842,454	507,921
Restricted for capital acquisitions	29,445	32,500
Unrestricted net assets (deficits)	(181,076)	198,503
Total net assets	7,690,823	738,924
Total liabilities and net assets	\$ 8,783,390	\$ 1,386,951

Bay Bluffs - Emmet County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2004	December 31, 2003
Operating Revenue		
Net service revenue	\$ 6,285,492	\$ 5,978,147
Other operating revenue	45,687	82,633
Proportionate share reimbursement	76,890	142,816
Total operating revenue	6,408,069	6,203,596
Operating Expenses		
Salaries and wages	4,502,327	4,247,738
Employee benefits and payroll taxes	1,398,117	1,290,173
Operating supplies and expenses	706,600	611,693
Professional services and consultant fees	136,543	125,400
Repairs and maintenance	75,571	55,114
Staff development, training, and education	19,704	20,971
Travel	8,782	8,386
Utilities	125,018	113,377
Maintenance of effort	197,301	174,050
Depreciation and amortization	96,825	86,166
Equipment	20,926	12,538
Other	229,235	200,470
Total operating expenses	7,516,949	6,946,076
Operating Loss	(1,108,880)	(742,480)
Other Income (Expense)		
Loss on sale of property	(24,469)	-
County subsidy - Building project	300,000	-
County subsidy - Operations	200,000	200,000
Total other income	475,531	200,000
Capital Grants and Contributions	193,768	26,657
Equity Transfer from the County (Note 4)	7,391,480	-
Increase (Decrease) in Net Assets	6,951,899	(515,823)
Net Assets - Beginning of year	738,924	1,254,747
Net Assets - End of year	<u>\$ 7,690,823</u>	<u>\$ 738,924</u>

Bay Bluffs - Emmet County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2004	December 31, 2003
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 6,249,387	\$ 5,964,261
Cash paid to employees and suppliers	(7,323,485)	(7,008,295)
Cash received from proportionate share program	48,492	83,211
Other operating receipts	45,687	146,695
Net cash used in operating activities	(979,919)	(814,128)
Cash Flows from Noncapital Financing Activities		
Resident trust deposits (withdrawals)	(545)	2,579
County subsidy - Building project	300,000	-
County subsidy - Operations	200,000	200,000
Due to county	401,432	-
Net cash provided by noncapital financing activities	900,887	202,579
Cash Flows from Capital Financing Activities		
Purchase of property and equipment	(64,347)	(44,523)
Contributions	25,126	26,657
Net cash used in capital financing activities	(39,221)	(17,866)
Net Decrease in Cash	(118,253)	(629,415)
Cash - Beginning of year	147,698	777,113
Cash - End of year	\$ 29,445	\$ 147,698
Balance Sheet Classification of Cash		
Current assets	\$ -	\$ 115,198
Assets limited as to use	29,445	32,500
Total cash	\$ 29,445	\$ 147,698

Bay Bluffs - Emmet County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2004	December 31, 2003
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (1,108,880)	\$ (742,480)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	96,825	86,166
Provision for bad debts	3,061	6,803
Changes in assets and liabilities:		
Resident accounts receivable	(55,601)	(20,689)
Other receivables	85,335	-
Other current assets	(44,312)	64,062
Accounts payable	3,989	(12,584)
Accrued expenses	51,627	(135,801)
Deferred revenue	(11,963)	(59,605)
Net cash used in operating activities	<u>\$ (979,919)</u>	<u>\$ (814,128)</u>

During 2004, \$7,391,480 of construction costs paid by the Emmet County Building Authority were capitalized upon significant completion of the first phase of construction and renovation to the Facility. See Note 4 for additional information related to the renovation project. There were no noncash investing, capital, or financing activities for 2003.

During 2004, a contribution receivable was recorded at an estimated amount of \$168,642 for the cost of the Alzheimer's room.

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies

Bay Bluffs - Emmet County Medical Care Facility (the "Facility") is a not-for-profit, 120-bed, long-term care facility owned and operated by Emmet County (the "County"). At December 31, 2004, the Facility had 107 beds in service. It is governed by the Emmet County Family Independence Agency Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting, utilizing the full accrual method of accounting.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Accrual Basis - The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Accounts Receivable - The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews individual accounts receivable balances that exceed 90 days and determines what will not be collected. In addition, a general valuation allowance is estimated based principally on historical experience.

Contributions Receivable - Pledges of cash and other assets, including unconditional promises to give in the future, are reported as revenue when granted or received, measured at fair value. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Assets Limited as to Use - Assets limited as to use primarily include designated assets set aside by donors for future capital improvement.

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment amounts are recorded at historical cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets.

Resident Funds - The State Department of Treasury requires facilities to administer and account for monies of residents. The resident trust liability on the balance sheet represents resident trust fund deposits.

Compensated Absences - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Deferred Revenue - Deferred revenue at December 31, 2004 and 2003 consists of amounts deferred in relation to the proportionate share reimbursement program and prebilled resident charges.

Residents are billed for room charges at the end of the previous month. January 2005 charges were billed at December 31, 2004. This resulted in deferred revenue of \$135,473 and \$119,038 at December 31, 2004 and 2003, respectively.

Contributions - The Facility reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

The Facility reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Facility reports the expiration of donor restrictions when the assets are placed in service.

Proportionate Share Reimbursement Program - During the years ended December 31, 2004 and 2003, the Facility participated in this program sponsored by the State of Michigan.

In 2004, two transactions were completed. The first transaction was recorded in revenue in relation to the State fiscal year ended September 30, 2004. The second transaction in October was for the State fiscal year ending September 30, 2005 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note I - Nature of Business and Significant Accounting Policies (Continued)

In 2003, two transactions were completed. The first transaction was recorded in revenue in relation to the State fiscal year ended September 30, 2003. The second transaction in October was for the State fiscal year ended September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue. The above transactions resulted in revenue of \$76,890 and \$142,816 for the years ended December 31, 2004 and 2003, respectively, and deferred revenue of \$29,252 and \$57,650 at December 31, 2004 and 2003, respectively.

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	<u>2004</u>	<u>2003</u>
Percent of revenue:		
Medicaid	83 %	80 %
Medicare	5 %	7 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid reimburses the Facility for inresident routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the Facility and is recorded in operating expenses. M.O.E. expense amounted to \$197,301 and \$174,050 for the years ended December 31, 2004 and 2003, respectively.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those amounts.

Reclassifications - Certain prior year classifications have been changed to correspond with 2004 classifications.

Net Assets - Net assets of the Facility are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Net assets restricted for capital acquisitions are restricted by donors for the future purchase of capital assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility now follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities. There was no impact to the net assets of the Facility in adopting GASB No. 34.

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2004		2003	
	Cash	Assets Limited as to Use	Cash	Assets Limited as to Use
Deposits:				
County treasurer	\$ -	\$ -	\$ 103,629	\$ -
Bank	-	29,445	11,199	32,500
Petty cash	-	-	370	-
Total	<u>\$ -</u>	<u>\$ 29,445</u>	<u>\$ 115,198</u>	<u>\$ 32,500</u>

Cash - County Treasurer - These funds were under the control of the County treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

Cash - Bank - The deposits are reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$144,013 and \$224,175 at December 31, 2004 and 2003, respectively. The federal depository insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable.

Assets limited as to use are designated for the following:

	2004	2003
By board for future capital purchases	<u>\$ 29,445</u>	<u>\$ 32,500</u>

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2004	2003
Resident accounts receivable	\$ 724,081	\$ 671,541
Uncollectible accounts	<u>(40,000)</u>	<u>(40,000)</u>
Net resident accounts receivable	<u>\$ 684,081</u>	<u>\$ 631,541</u>

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 3 - Resident Accounts Receivable (Continued)

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	2004	2003
Medicare	10 %	11 %
Medicaid	60 %	53 %
Other payors	30 %	36 %
Total	100 %	100 %

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Retirements	2004	Depreciable Life - Years
Building	\$ 1,073,819	\$ 6,924,068	\$ (143,662)	\$ 7,854,225	10-40
Equipment	1,420,912	531,759	(416,781)	1,535,890	5-20
Total	2,494,731	7,455,827	(560,443)	9,390,115	
Less accumulated depreciation:					
Building	919,110	43,490	(142,049)	820,551	
Equipment	1,067,700	53,335	(393,925)	727,110	
Total	1,986,810	96,825	(535,974)	1,547,661	
Net carrying amount	\$ 507,921	\$ 7,359,002	\$ (24,469)	\$ 7,842,454	

Cost of capital assets and related depreciable lives for December 31, 2003 are summarized below:

	2002	Additions	Retirements	2003	Depreciable Life - Years
Building	\$ 1,073,819	\$ -	\$ -	\$ 1,073,819	10-40
Equipment	1,376,389	44,523	-	1,420,912	5-20
Total	2,450,208	44,523	-	2,494,731	
Less accumulated depreciation:					
Building	906,853	12,257	-	919,110	
Equipment	993,791	73,909	-	1,067,700	
Total	1,900,644	86,166	-	1,986,810	
Net carrying amount	\$ 549,564	\$ (41,643)	\$ -	\$ 507,921	

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 4 - Property and Equipment (Continued)

In 2003, the Facility began renovation and construction of a building addition. The estimated cost of the project is approximately \$8,000,000. The County Building Authority issued bonds in April 2002 totaling \$8,050,000. A millage has been approved to fund principal and interest payments as well as operations.

During construction, the County Building Authority will account for all the activities relating to the project. Upon completion of each phase of the project, the Facility will record the capitalized assets placed into service as a transfer from the County. Because the County Building Authority will be responsible for the construction, along with the retirement of the debt, the Facility does not have construction commitments related to the project.

Phase I was completed during 2004 and the facility has recorded the costs associated with this phase as a current year contribution from the County. The repayment of the liability for the bonds issued is being reported in a debt service fund by the County and therefore is not reflected in the Facility's financial statements. The balance of the bonds payable reported by the County at December 31, 2004 and 2003 was \$6,950,000 and \$7,550,000, respectively. Any transfers from the millage fund for operations are recorded by the Facility as revenue when received from the County.

Note 5 - Retirement Benefits

Plan Description - Prior to December 31, 1995, the Facility participated in a noncontributory, multiple-employer defined benefit pension plan, which was administered by Emmet County and covered all of its full-time employees. Effective January 1, 1996, the Facility established a money purchase pension plan that replaced the defined benefit plan. All employees with less than eight years of service at January 1, 1996 and certain employees with more than eight years of service are covered under the money purchase plan. The remainder of employees were given the option to remain in the defined benefit plan or transfer to the money purchase pension plan. The present value of the future benefit under the defined benefit plan as of January 1, 1996 was transferred to the money purchase pension plan for those employees who converted plans either voluntarily or according to the mandatory provisions. The balance was transferred for both vested and nonvested employees.

The defined benefit pension plan provides retirement benefits to plan members and their beneficiaries. The County of Emmet issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the plan sponsor at the Emmet County Board of Commissioners, 200 Division Street, Petoskey, Michigan 49770.

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 5 - Retirement Benefits (Continued)

Funding Policy - The obligation to contribute to and maintain the defined benefit plan for covered employees was established in the County of Emmet Retirement Plan and Trust. The funding policy provides for periodic employer contributions at an actuarially determined rate equal to the traditional accrued benefit for 2004, and the normal cost for 2003, plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability. The calculated minimum contribution for 2005 is \$39,221 and the maximum allowed contribution would be \$163,635.

Annual Pension Cost - The Facility's contributions to the plan amounted to \$138,019 and \$90,000 in 2004 and 2003, respectively.

To show the progress of the Facility's status for each plan regarding certain key indicators, two-year trend information is presented below:

Facility Plan	2004	2003
Annual pension cost (APC)	\$ 87,633	\$ 91,932
Percent of APC contributed	352.00 %	105.00 %
Actuarial value of assets	\$ 1,564,774	\$ 1,526,640
Actuarial accrued liability (entry age)	\$ 2,568,211	\$ 2,696,672
Unfunded actuarial accrued liability (UAAL)	\$ 1,003,437	\$ 1,170,032
Funded ratio	0.61 %	0.57 %

Note 6 - Defined Contribution Pension Plan

The money purchase pension plan covers all of the Facility's full-time employees, other than those who have chosen to remain in the defined benefit plan. The money purchase pension plan is a defined contribution plan; that is, contributions become vested at 25 percent per year based on years of service, becoming fully vested after four years, and the County is required to contribute 8 percent of employee compensation to the plan. In accordance with these requirements, the Facility contributed \$267,495 and \$261,175 to the plan for the plan years ended December 31, 2004 and 2003, respectively.

Note 7 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, and errors and omissions, as well as medical benefits provided to employees. The Facility has purchased commercial insurance to cover these risks. Settled claims have not exceeded the amount of insurance coverage in any of the past two fiscal years.

The Facility is self-insured for employee injuries (workers' compensation) and unemployment claims. The Facility is covered by a stop-loss policy that covers individual claims over \$500,000 for workers' compensation.

Bay Bluffs - Emmet County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 7 - Risk Management (Continued)

Changes in the estimated liability for the years ended December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Estimated liability - Beginning of year	\$ 58,999	\$ 15,888
Estimated claims incurred, including changes in estimates	48,966	58,999
Claim payments	<u>(58,999)</u>	<u>(15,888)</u>
Estimated liability - End of year	<u>\$ 48,966</u>	<u>\$ 58,999</u>

Additional Information



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To the Emmet County Department of Health Services Board
Bay Bluffs - Emmet County Medical Care Facility

We have audited the financial statements of Bay Bluffs - Emmet County Medical Care Facility as of December 31, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

May 6, 2005

Bay Bluffs - Emmet County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2004	2003
Skilled Nursing Services		
Daily net room revenue:		
Medicaid	\$ 5,084,349	\$ 4,753,763
Medicare	322,840	364,796
Private pay and other	727,287	842,359
Total daily net room revenue	6,134,476	5,960,918
Ancillary revenue:		
Pharmacy	53,100	48,805
Therapy services	356,479	366,686
Other ancillary services	20,448	19,940
Total ancillary revenue	430,027	435,431
Gross skilled nursing services revenue	6,564,503	6,396,349
Revenue Deductions		
Provision for contractual discounts	275,950	411,399
Provision for uncollectible accounts	3,061	6,803
Total revenue deductions	279,011	418,202
Net Service Revenue	\$ 6,285,492	\$ 5,978,147

Bay Bluffs - Emmet County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2004			2003
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,398,117	\$ 1,398,117	\$ 1,290,173
Administration	311,528	294,603	606,131	542,148
Plant operations	176,490	62,808	239,298	199,892
Utilities	-	125,018	125,018	113,377
Laundry	73,016	54,106	127,122	122,013
Housekeeping	161,826	42,996	204,822	187,664
Dietary	456,885	286,205	743,090	683,177
Social services	121,169	3,996	125,165	110,324
Diversional therapy	192,353	25,018	217,371	189,276
Other ancillary services	-	14,191	14,191	10,712
Therapy services	141,514	27,362	168,876	155,641
Pharmacy	-	68,844	68,844	49,422
Nursing	2,867,546	310,729	3,178,275	3,025,184
Other services	-	6,503	6,503	6,857
Depreciation and amortization	-	96,825	96,825	86,166
Maintenance of effort	-	197,301	197,301	174,050
2004 totals	\$ 4,502,327	\$ 3,014,622	\$ 7,516,949	
2003 totals	\$ 4,247,738	\$ 2,698,338		\$ 6,946,076